VERDICT

The myth of banking on blockchain: Banks will only profit from the decentralised ledger

"A very prominent myth is that blockchain will trigger the demise of banks," says Igor Pejic, author of Blockchain Babel. But banking on blockchain could be about to revolutionise the industry rather than destroy it.

Blockchain was created by the famous and elusive Satoshi Nakamoto, along with the invention of cryptocurrency Bitcoin.

Cryptocurrency has been called a trick, although every currency works through a sort of illusion, based on principles of trust and cooperation. In that sense, currency is built on metaphysical concepts that are fundamental to humanity, and bankers are our trusted gatekeepers.

But pioneers in crypto hailed the decentralised quality of Bitcoin on the blockchain ledger, as a way to explode traditional banking. It was a way 'to get rid of the middleman', who takes a percentage for his services in bringing consumer together with the product. With crypto and blockchain there would be transparency, and we, the people could take our money back from the control and manipulation of the banks.

But businesses everywhere are now turning to blockchain and discarding cryptocurrency. Or businesses are harnessing the concept of crypto along with blockchain to create or maintain their place in the money game, with some enterprises focused on changing its ethics.

Blockchain for efficiency and savings

In February 2019, JP Morgan Chase issued the JPM coin, a digital token that will make remittances cheap and quick but maintain a link to the dollar.

Indeed, Pejic says: "The blockchain will increase the competitive pressure in payments, as it will make entry barriers erode so fintechs and other entrants can attack.

"Banks are doing everything not to be caught napping. We even see that banks are among the most active players in blockchain research. And banks are extremely successful in squeezing this new technology to fit real-life use cases."

Pejic says banks will use blockchain to save around $20bn per year in operational costs and create gains in efficiency. Banking on blockchain could "unlock massive revenue pools" through a change in business models and growth in the banks' offerings.

So rather than imploding the banks, blockchain could mean banks are trusted with even more because we already trust them with so much.

"Instead of limiting themselves to financial products, banks could in future offer any kind of trusted services such as verifying university diplomas or providing a smart contract platform," he says.

Banking on blockchain, the killer application

Blockchain is being applied to a host of verticals, from the music industry to supply chains, and in every case, transparency is the leading factor. But Pejic thinks finance is the key area where it will work.

"The biggest use case is in cross border payment because you bring down the cost and you bring down transaction time.

"I don't think cryptocurrency will be the killer app, we'll still be doing transactions in dollars or pounds. There'll be fiat currency and then some kind of token in the background, but there won't be cryptocurrency because they have too many problems."

At the very least, he says, "they will not be as dominate as currencies backed by countries and banks".

An economy built on the blockchain, "will still require institutions of trust, as we have today with banks".

"Bitcoin and cryptocurrency often say they would displace governments and cut out middlemen. It might put pressure, but at the end of the day it will not cut them out, especially not the banks. Banks provision the movement of currency, mainly by supporting fiat currency. And banks are providing loans which is something that can't be done without the big institutions."

Syndicated lending

Syndicated lending is a lending process that involves multiple lenders financing a single borrower. Grant Jones, vice president of LenderComm at Finastra says: "It is a perfect example of where blockchain can revolutionise banking."

While syndicated loans involve numerous participants, "it is the responsibility of the agent bank, the loan coordinator, to keep everyone updated on any potential changes to the loan".

He says communication here uses methods such as fax, phone calls and email, "so there is a significant lack of transparency and updating participants on loan positions can be an extremely arduous process".

"It is in these middle- and back-office banking processes where secure, real-time communication is needed between multiple parties, where we will start to see blockchain driving much-needed efficiency," Jones predicts.

"Blockchain is not the full answer"

Denis Baranov, principal consultant at technology consultancy DataArt believes there is a shift away from the idea that blockchain could change every aspect of banking.

“The industry is recognising that the current banking technology is not bad technology,” he says.

“Where the advantages and potential for transformation lie is in finding the appropriate use-cases for new blockchain technology and using it alongside current technology systems.”

Baranov says blockchain was previously thought of as the new SWIFT, a type of international transfer.

“In fact, SWIFT can use the benefits of blockchain for faster reconciliations or shared acknowledgement. But the actual transfer of money still relies on SWIFT’s current technology.”

Banking on blockchain has already arrived, and banks are counting on reaping the rewards of the technology. This means banking will change and even improve. The dream of Nakamoto, like all dreams in the morning light, could yet be something worth making into reality.

Original article can be found here: https://www.verdict.co.uk/banking-on-blockchain/